The name of the program for today

is the Bachelor of Commerce, 4th.

Earlier this object name is

business management, say Mr 6.

And of course,

Titan in the financial management.

The title for the unit is capital structure,

Decision module name,

carpet calculating averages,

and practical approach.

So the outline is to study the

calculation of your operating,

financial and composite

leverage the learning outcomes

on completion of the modules.

Students will be able to

explain the concept of operating

financial and composite leverage

solve problems on operating,

financial and composite leverage.

So understanding the very first leverages.

Operating leverage operating

leverage is concerned with the

investment activities of the form.

It relates to the presence of peaks

operating costs in the firm's income stream.

It is used of fixed operating

costs in magnifying the operating

profiles or the operating profits

arising from change in sales.

So operating leverage is is basically

concerned with the fixed amount of cost.

The operating fixed costs that your pain.

So in operating costing the cost have

been classified into different types,

your variable costs an your fixed cost.

The fixed costs do not change

with the change in sales,

so your fixed costs irrespective

of these sales,

you're supposed to pay a fixed

amount of money every year.

Fix cars do not change in the

change in your output an it is paid

regardless of the sales volume,

whereas variable costs vary.

Direct proportions to sales.

So if sales increase or decrease,

the variable cost will have its own effect.

If sales have increased the cost

or variable with increase if

the sales have decreased,

the variable cost would decrease

whereas there is no impact

in the changes in the sales.

In a fixed cost,

so you think scores one good example

will be our rent will be your insurance

that you're paying the variable cost.

The best example is your direct expenses,

which are directly related to your sales.

With an increasing sales fix,

calls remain the same and will

magnify the operating revenue.

This operating leverage occurs

when a firm has fixed costs,

so operating leverages

focuses on your fixed cost.

Thus the fixed cost of remaining the same.

The percentage change in operating

revenue will be more than the

percentage change in sales,

so here these costs will remain change.

Rest all will change because

your variable cost is changing,

your revenue will change.

The operating leverage is calculated

by the degree of operating image.

The degree of operating railways

here is the formula.

So DOL stands for degree of operating

leverage is equal to percentage change

in ABI TBI taking stands for your

earning before interest index divided

by percentage changing your sales.

It could be further expanded.

The same formula is expanding.

So change in YBIT.

That is your earnings before

interest in text divided by a BIT.

Again the whole thing.

Why did by changing sales

divided by sales again,

this particular formulas expanded

is again magnified and return.

Hence your degree of operating

leverage is equal to new API TLS only.

Be it this particular format

is used to calculate the change

in India T so you buy it less.

The only BIT is nothing but changing EBT

divided by only BT again India T stands

for earnings before interest in text.

So holding divided by uses less

the old sales again uses less.

Wholesale represents your change in sales.

The whole thing divided by wholesale.

So again each and every formula is expanded.

Here again, a different formula

for your operating language is

contribution divided by EBIT,

so contribution is nothing but

your sales minus variable cost,

so operating leverage again the same

formula is magnified is expanding.

Is it in her sales minus variable

costs divided by your ABI?

TDY earnings before interest in text.

So coming to your financial leverage,

it is related with the financing

activities of the forms.

How do you find your business?

What sources of fun you use?

So mainly they are related to death and

your equity in the capital structure.

The portion of your death annual

equity in your capital structure.

That particular format of that

particular concept is known as your.

Financial leverage the funds may be

raised to two different sources.

Your own funds self owning form,

also known as the equity funds.

Your own funds,

then your own funds.

That means your borrowed funds that is

known as the debt funds or credit as follows.

So mixture of these both will

constitute your financial leverages,

the sources from which ones are

used in financing of a business can

be categorized into fonts having

fixed financial charges.

So if you are financing through your death,

that means lonardi benchers.

You will have to pay a fixed

amount of long term charges.

That comes your interest.

If you are financing your business.

Firstly, we don't yet have to pay a fixed

amount of charges as Jordy we don't.

So you will face financial charges

represent the charges there.

You're required to be paid in your finances.

And fonts will now not be fixed.

Financial judges the fixed

return sources of capital,

such as the benchers, bonds,

long term loans and preferences,

influence the earning of variable.

Already done sources.

The effect is known as financial leverage.

The use of fixed charge,

which is required to be

paid on all those debt,

which includes adventures,

bonds, also,

long term loans and preference shares.

In case where you're paying dividend

in case of your preference shares,

all this concept is known

as your financial leverage.

So if you do not use all these dead phones

then no fixed charge are required to be paid.

If there is no fixed charge

in your capital structure,

then there is no financial leverage is.

So here is the formula for your.

Financial leverage.

The financial leverage is calculated

by the degree of financial language,

the degree of financial leverage

is calculated,

has DFL stand for degree of

financial leverage is equal

to percentage change in EPS,

EPS stand for an impartial divided

by percentage change in abids.

Again this particular formula is

again expanded again magnified

change in EPS divided by EPS again.

So these particular.

Formula this particular part of your

numerator represent percentage change in

EPS so divided by the holding divided by

change in AIT divided by apitz, that is,

earnings before interest in things.

So again this particular part of the

denominator represents percentage

change in YIT.

The last part again,

the upper formula is magnified,

is expanded again.

DFL is equal to your degree of

financial leverage is equal to new EPS.

Less old EPS divided by old EPS.

So again these particular numerator,

part of formula returning the numerator power

represents the about part of your numerator.

So change in EPS divided by EPS

again coming the whole thing

divided by new API TLS only BIT.

The whole thing divided by your Olivia

TV represents again the change in your.

Percentage change in your Indian tea.

So I get a different formula when

the preference dividend is paid so

financial leverage is equal to EBIT,

the whole thing divided by EBIT.

Less your interest that I stands

for intros less deep in it is the

we don't pay on your preferences.

Which is 1 / 1 -- 6.

All a different formula.

Financial leverages is equal to EIT

divided by EBT when profits and interest.

On before tags and what

preference division is not paid?

So the final concept of the final

average point service decompose it

leverage the combination of operating

language and financial leverage is called

total leverage or combine leverage.

Operating leverage measures operating range,

whereas financial measures financial

leverages measures financial bills.

So we're combining both of the language

is to find out the total rings involved.

So operating language will tell the

operating risks involved and the

financial leverage will tell the

amount of financial ***** in what.

Total leverage or combined leverage

measures the total rings of the

business studies involving the business,

both financial and operating language,

magnifies the revenue of the form.

The degree of composite language

can be calculated,

hence,

the degree of composite leverages

equal to degree of operating leverage

multiplied by the degree of your financial

leverage or percentage change in your

APS divided by the percentage change in

your sales or the contribution divided by.

Your EBT that is profit before tax and

after interest less your DPS preference.

Dividend paid.

The winding divided by 1 -- 3.

That is your text.

So DCL again,

that is degree of composite leverages.

Contribution divided by your

EBT so here's one example.

A company has sales of rupees five

flags variable cost of rupees.

Three length fixed cost of rupees one

leg and long term loan of rupees four

legs at the rate of 10% rate of interest.

You're supposed to calculate

composite revisions in order to

calculate composite leverage.

Again,

you're supposed to calculate

operating leverage as well.

And you're supposed to calculate financial

leverage with the given information.

So you're saying this is Even

so obviously you're supposed

to use this particular formula?

Operating leverage is equal to contribution

divided by earnings before interest N Dex,

so contribution, how do you calculate

sales minus your variable costs?

So fire Flex minus three legs

will give you rupees two lengths

earnings before interest in taxes.

Nothing but your sales minus variable costs,

minus your fixed costs.

So five legs less 3 less less.

One LED will give you rupees one leg.

And that becomes Algeria earnings

before before interest in text.

So rupees two lacs divided by rupees one leg

will give you operating language has two.

Now calculating your financial leverage

again earnings before interest and

tax divided by earning before tax and

after interest so are equally on.

Also be considered head earnings

before tax and after interest

warnings less interest,

so earning before interest and tax already

calculated it is sales minus variable

costs minus fixed costs is rupees one leg

and divided by rupees one leg again less?

Your rate of interest?

How do you calculate your rate of interest?

So yeah,

we want Domino has rupees four legs

at the rate of 10% rate of interest.

So four legs multiplied by 10% of your

interest will give you rupees 40,000

so that it becomes a interessee are

required to pay the fixed financial costs.

So now the answer is 5 divided by three

5 / 3 becomes your financial language.

So now I can compose an average

operating leverage multiplied

by your financial leverages.

So 2 * 5 / 3 will give you 10 / 3,

so your composite revelation

degree of breaks altogether.

Considering your operating rings,

annual financial risks is 10 / 3.

Conclusion so operating language

and financial leverage the leverage

associated with employment of your fixed

cost is refers to an operating language

while deleveraging resulting from the

use of your fixed financial cost of

fixed costs or the returns in your

fonts is known as your financial leverage.

The combination of both were finding out the

total links involved in a particular form, including both your operating fixed calls,

your financial fixed cost,

and then becomes your compose it leverages.

That operating language is determined

by the relationship between firm

sales revenue and its earnings

before interest and tax.

On the other hand,

financial leverage represents the

relationship between a BIT an earnings

available for ordinary shareholders.

The long term wealth those invitees

uses a pivotal name is very important.

Pictural point in refining

operating annual financial leverage,

these are the sources they both

that are used to cover these nodes.

Thank you.